

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

HARBORVIEW MASTER FUND, LP,

Plaintiff,

-against-

LIGHTPATH TECHNOLOGIES, INC.,

KENNETH BRIZEL and ROBERT RIPP,

Defendants.

Civil Action No. 07 Civ. 9228 (NRB)

DECLARATION OF ONA T. WANG

I, Ona T. Wang, declare that:

1. I am an attorney admitted to practice before the courts of the State of New York and the bar of this Court. I am a partner with the law firm of Baker & Hostetler LLP, attorneys for defendant LightPath Technologies, Inc. ("LightPath") in this action.
2. Attached as Exhibit 1 is a copy of LightPath's Form 10-K, Annual Report for the fiscal year ended June 30, 2006 referenced in ¶ 32 of the Amended Complaint.
3. I certify under penalty of perjury that the foregoing is true and correct.

Executed on May 30, 2008



Ona T. Wang (OW-5462)

EXHIBIT #1

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2006 or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

86-0708398

(I.R.S. Employer Identification No)

<http://www.lightpath.com>

2603 Challenger Tech Court, Suite 100
Orlando, Florida 32826

(Address of principal executive offices, including zip code)

(407) 382-4003

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

(Title of each class)

None

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, \$0.01 par value
Series D Participating Preferred Stock Purchase Rights
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐
NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐
NO ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

Indicate by check mark whether the registrant is a shell company. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. YES ☐ NO ☒

The aggregate market value of the registrant's voting stock held by non-affiliates (based on the closing sale price of the registrant's Common Stock on the NASDAQ Capital Market, and for the purpose of this computation only, on the assumption that all of the registrant's directors and officers are affiliates as well as two parties filing on Form SC 13-G) was approximately \$3,319,200 as of September 15, 2006.

As of September 15, 2006, the number of shares of the registrant's Class A Common Stock outstanding was 4,471,088.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

LightPath Technologies, Inc.
Form 10-K
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PART I

Item 1. Business.

General

LightPath Technologies, Inc. ("LightPath" or "Company") manufactures optical components and higher level assemblies including precision molded glass aspheric optics, precision molded infrared molder optics, isolators, proprietary fiber-optic collimators, GRADIUM glass lenses and other optical materials used to produce products that manipulate light. We design, develop, manufacture and distribute optical components and assemblies utilizing advanced optical manufacturing processes. Our products are incorporated into a variety of applications by our customers in many industries, including defense products, medical devices, barcode scanners, optical data storage, hybrid fiber coax datacom, telecom, machine vision and sensors, among others. All the products that we produce enable lasers and imaging devices to do their jobs:

- *Molded glass aspheres* are in various high performance optical applications in lasers and infrared imaging;
- *Isolators* prevent the back-reflection of optical signals that can degrade optical transmitter and amplifier performance whenever light must enter or exit a fiberoptic cable ("fiber");
- *Collimators* are assemblies that are used to straighten and make parallel diverging light as it exits a fiber, laser delivery applications like fiber lasers; and
- *GRADIUM* extends the performance of a spherically polished glass lens technology improving optical performance, approaching aspheric performance at a fraction of the price.

LightPath was incorporated under Delaware law as a corporation in June 1992 as the successor to LightPath Technologies LP, a New Mexico limited partnership formed in 1989, and its predecessor, Integrated Solar Technologies Corporation, a New Mexico corporation, organized in 1985. We completed an initial public offering of our common stock in 1996. From our inception in 1985 until June 1996, we were classified as a "development stage enterprise" that primarily engaged in basic research and development with an initial objective to improve solar energy technology. Over time, we expanded our attention to other optics applications using GRADIUM glass lenses.

During fiscal 1998, we reorganized our sales and marketing efforts with the purpose of expanding our attention to include markets such as optoelectronics and photonics due to the number of potential customer inquiries into the ability of GRADIUM glass to solve optoelectronic problems, specifically in the areas of fiber telecommunications. Simultaneously, we developed a strategy to enter the telecom optical components market using a concept of automated production of telecom components using laser fusion and fiber attachment techniques we developed. Our now patented laser fusion and fiber attachment techniques are substantially automated and we believe these techniques provided improved quality and production flexibility. Our automation theme was expanded with our fiscal 2000 acquisition of Horizon Photonics, Inc. ("Horizon"), a California corporation originally founded in July 1997, where we acquired the use of robotic systems in manufacturing isolators.

Horizon utilized automated production platforms to manufacture passive optical components for the telecommunications and data communications markets. We acquired all of the outstanding shares of Horizon for approximately 175,000 shares of our Class A common stock and \$1 million in cash (an aggregate purchase price of approximately \$40.2 million, based on the then-market price of our common stock). Horizon manufactured isolator products in California prior to May 2003 when the site was consolidated with the facilities in Orlando, Florida. The Horizon legal entity was dissolved during fiscal 2004.

In September 2000, we acquired Geltech, Inc. ("Geltech"), a Delaware corporation originally founded in May 1985. Geltech is a manufacturer of precision molded glass aspheric optics, which have broad applicability to numerous application markets. Precision molded glass aspheric optics are also used in the active telecom components market to provide a highly efficient means to couple laser diodes to fibers or waveguides. We acquired all of the outstanding shares of Geltech for approximately 103,000 shares of our Class A common stock and approximately \$1 million in acquisition costs (an aggregate purchase price of approximately \$28.5 million, based on the then-market price of our common stock). We manufacture precision molded glass aspheric optics at our facility in Orlando, Florida. During fiscal 2002, we expanded the Orlando manufacturing facility, and in fiscal 2003, in order to reduce costs, we relocated our corporate headquarters to Orlando and reorganized our manufacturing facility there to accommodate all of the production previously performed in New Mexico for GRADIUM glass lenses and collimators as well as the isolator product line from California.

From 1998 until 2002, our intense pursuit of optoelectronics and photonics applications led us to become heavily reliant on the telecommunications capital equipment market, which went through a rapid and substantial increase and a similarly rapid and substantial decline in these five years. This drove our product development and acquisition strategies during this time and led to an increase in reported revenues from under \$1 million to over \$26 million and then to a decline to under \$7 million in fiscal 2003. As a result of activities during this five-year period, we found it necessary to reduce costs significantly by consolidating all production and our corporate headquarters in Florida. Once we consolidated all Company operations to one site under one management group and with one sales force, we determined that our former operating segments of Optical Lenses and Laser Components were no longer reportable operating segments and, as such, we operate a single business with the aforementioned optical component product lines.

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In November 2005, the Company announced the formation of LightPath Optical Instrumentation (Shanghai) Co., Ltd, a wholly owned manufacturing subsidiary, located in Jiading, People's Republic of China ("PRC"). The manufacturing operations are housed in a 17,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant is expected to increase overall production capacity and enable LightPath to compete for larger production volumes of optical components and assemblies, and strengthen partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company's sales expansion in Asia/Pacific.

Business Strategy

Our strategy is to diversify away from strictly telecom markets toward our traditional optics customer base, which represents over 1,000 companies worldwide engaged in a wide variety of markets. We had not emphasized applications with these customers during the telecommunications boom and we are working diligently to service and participate in the development of their next generation of applications and products. We continue to serve a number of telecom customers; most of them are in a broader market of communications, including datacom, hybrid-fiber coax and telecommunications. We have leveraged our patents and know-how to develop new products for applications in Blue Lasers, Infrared Imaging and Fiber Laser Delivery Systems.

Because complex customer application systems can contain many optical components and our products can be utilized to reduce the number or type of lens elements in such systems, we believe that our products can simplify the design and improve the performance of such complex optical systems. However, design and production of an optical product is a lengthy process, and it may take years for producers to redesign complex optical systems using our products, reconfigure the product housing, re-engineer the assembly process and initiate commercial quantity orders for our products. Accordingly, we intend to focus our long-term marketing efforts on emerging industries, such as medical devices, barcode scanners, optical data storage, machine vision, sensors and performance-driven industries that are seeking to optimize performance of new and existing optical products.

Molded Aspheres

We have rights under a royalty-free perpetual license to the Precision Molded Optics process originally developed by Corning, Inc., whose business in this field we acquired in 1994. Products manufactured using this technology include glass aspheric lenses, sub-millimeter lenses and lens arrays. These products include wafer-scale molded glass aspheric lenses, anamorphic lenses and hybrid optical components like diffractives and our Infrared molded optics introduced during 2005.

Our molded glass aspheres are used in a wide variety of laser and imaging applications in optical data storage, high precision printing, barcode scanning, environmental monitoring, machine vision, sensors, laser-to-fiber coupling, and medical equipment. We continue to aggressively pursue new sales opportunities in, for example, the application areas of medical devices, anamorphic corrections and infrared imaging.

We continue to sell aspheric lenses for various communications applications. Glass aspheric lenses and lens arrays are used to perform two major tasks. One is the collimation of light as it emerges from the fiber. The second major task is coupling and focusing light at the output of a laser diode to a fiber or waveguide. Glass provides high performance and wavelength stability over fluctuating temperature.

We are beginning to sell precision molded infrared aspheric optics for imaging applications in firefighting, predictive maintenance, homeland security, surveillance, automotive and defense. LightPath is a leader in molding precision optics and we intend to continue to lead in the infrared area. We anticipate the growth of infrared optics and the requirements in systems for our molded technologies over traditional ground and polished lenses.

Isolators

We have developed a family of products that utilize a proprietary micro-fixture design and robotic platform processes. This automated process allows for micro-optics to be mounted in small transferable fixtures that are processed in arrays and converted into a variety of optical components and component subsystems. This flexible platform is capable of producing a variety of finished products including isolators. We are manufacturing a qualified family of free-space, laminate and custom isolators. We sell isolator assemblies for applications in all communications markets. This line is based on a manufacturing platform that can address a wide range of customer specifications, while supporting lower cost applications. Sales of isolators improved in fiscal 2006 and we continue to serve the communications market while working towards sales into other market applications.

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Collimators

During 1998, we began the development of products for the then-emerging optoelectronics markets, specifically in the areas of fiber telecommunications. Our standard collimator products provide higher performance in back reflection and insertion loss and can withstand in excess of ten watts of optical power. Customers have passively tested our collimators to over 100 watts in the forward direction. The process to manufacture these collimators uses patented laser fusion technologies and robotics. These products may incorporate aspheric molded optics and GRADIUM lenses. During 1999 and 2000, we expanded this product line, demonstrating to the telecommunication optical components industry that we can provide low-cost products and solutions to meet their telecom-related collimator needs. Beginning in 2001, the telecom equipment market slowed dramatically, reducing the demand for the optical components segment of the market. During fiscal 2004 we introduced seven new ruggedized collimators for use in high-power ND:YAG beam delivery units including fiber lasers. Due to the decline of this initial market segment, we pursued investigating other opportunities incorporating our unique patented laser fusion technology and began selling new high power collimators during fiscal 2005.

GRADIUM Lenses

GRADIUM glass was developed by us beginning in 1985 and is an optical quality glass material with axially varying refractive index, capable of reducing optical aberrations inherent in conventional lenses and performing with a single lens tasks traditionally performed by multi-element, conventional lens systems. Typical applications include surgical lasers, high power YAG lasers for welding, cutting and marking, defense-market uses, and test and measurement. Because GRADIUM glass can concentrate light transmission into a much smaller focal spot than conventional spherical lenses, we believe that GRADIUM glass has the ability to improve the current standards of laser performance in some applications.

Our growth strategy continues to be to increase our emphasis on key laser market niches in the United States, Europe and Asia to establish the necessary products and partnership alliances to sell into these markets. In the fourth quarter of fiscal 2002 we sold some of our GRADIUM production equipment to an Asia/Pacific company as part of a licensing agreement whereby they will manufacture GRADIUM glass for LightPath and distribute lenses to their own customers in Asia/Pacific. This agreement was renegotiated in fiscal 2003, whereby we obtain a royalty for their GRADIUM sales and we will maintain U.S. GRADIUM distribution rights. Distribution agreements are in place with specialty distributors to further assist in obtaining penetration into the high-power YAG laser and high performance lens end-markets.

Optical Assemblies

We are currently producing optical assemblies based on our proprietary technologies. We are working to design, build and sell optical assemblies into the markets for test and measurement, medical devices, military, industrial and communications. Our efforts, particularly in the medical devices, military and industrial markets, have resulted in revenue increases of over 14% compared to fiscal 2005.

Sales and Marketing

Extensive product diversity and varying levels of product maturity characterize the optics industry. Product markets range from consumer (e.g., cameras, copiers) to industrial (e.g., lasers, data storage, infrared imaging), from products where the lenses are the central feature (e.g., telescopes, microscopes, lens systems) to products incorporating lens components (e.g., robotics, semiconductor production equipment) and communications (various optics are required for bandwidth expansion and improved data transfer for the optical network). As a result, the markets for our products are highly segmented and no single marketing approach will allow us to access all available market segments.

From fiscal 1998 to fiscal 2002, our sales and marketing strategy was designed to capitalize on the growing demand for optical components for telecom. Since that period, there have been substantial changes in our organization, structure and sales strategies. Because we rely on multiple markets and market segments to diversify our sales base, we have made necessary changes in our sales force and sales strategies to strengthen our sales presence in markets where we deliver value.

Sales Organization

Our sales staff is trained to promote and sell all of our product lines to our customers. In order to be more accessible to potential customers we have divided our sales staff into the following territories:

U.S. East Coast & Eastern Canada	Asia
U.S. West Coast & Western Canada	Europe
U.S. Central	

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In addition, we have formalized relationships with twelve industrial, laser, optoelectronics and medical component distributors located in foreign countries and in the United States to assist in distribution of our products geographically outside the United States and in highly specific target markets. Because the optics industry is highly fragmented, we utilize these distributors, certain catalog distributors, our own catalog and our Internet site (www.lightpath.com) as vehicles for broader promotion of our products. We make limited use of print media advertisements in various trade magazines and participate in appropriate domestic and foreign trade shows.

Trade Shows

We have displayed our product line additions and enhancements at one or more trade shows each year. For example we participated in *Photonics West* in January 2006 and *SPIE East* in April 2006. We also attended CLEO and shows in Europe and Asia. Such a strategy also underscores LightPath's strategic directive of broadening our base of innovative optical components and assemblies. These shows provide an opportunity to meet with potential customers, to distribute information and samples of our products and to discuss test results from samples previously sent.

New Products

During fiscal 2006 we continued to offer more lens designs utilizing our proprietary lead free glass ECO550, used for precision molded aspheric lenses. The European Parliament has established a specification, RoHS (Restriction of Hazardous Substances) and the Japanese have established "Green" requirements in 2003, for the elimination of certain hazardous substances used in electronic equipment. RoHS takes effect July 2006 and "Green" is in effect now. ECO550 glass is both RoHS and "Green" compliant and contains virtually no lead or other restricted materials.

We continue to develop new designs for collimating lenses designed for 405 nm blue laser diodes. The new glass molded aspheric lens is designed for use with the new Nichia[®] blue diode laser, and is designed and manufactured to extremely stringent optical standards. The effort from both engineering and manufacturing required improved beam quality, which is particularly difficult for shorter wavelength lasers. These lenses are also applicable to other blue laser manufactures applications.

We continue to develop our molded infrared aspheric optics product line with new short (SWIR), mid (MWIR) and LWIR materials; this new product line is called the Black Diamond[™] precision molded glass aspheric optics. Traditionally our aspheric lenses have been limited to visible and near-infrared wavelengths. Recent advances in optical materials now provide a common technology path to produce molded infrared aspheric optics over the wavelength range of 1 to 14 microns. LightPath's Black Diamond[™] technology enables high performance, cost-effective molded infrared aspheric lenses. Traditionally, infrared optics rely on individually diamond turned, polished or other lengthy manufacturing methods. Utilizing precision molded aspheric optics significantly reduces the number of lenses required for typical thermal imaging systems. Precision molded infrared aspheric optics find imaging applications in firefighting, predictive maintenance, homeland security, surveillance, automotive and defense.

Our efforts in new product development are intended to broaden our capabilities to service market areas in addition to the communications markets, where our customers ask for more demanding optical performance. In addition to the products mentioned above, we are skilled at designing and producing of optical assemblies that combine two or more of our current components, such as molded aspheres and an isolator, into a subassembly. We believe these optical assemblies, which solve multiple optical problems in one package, have the future potential to produce higher gross profit margins for us than individual components.

Competition

The market for optical components generally is highly competitive and highly fragmented. We compete with manufacturers of conventional spherical lens products and optical components, providers of aspheric lenses and optical components and producers of optical quality glass. To a lesser extent, we compete with developers of radial gradient lenses and optical components. Most of these competitors have greater financial, manufacturing, marketing and other resources than we do.

We believe we can be successful in procuring business because of our unique capabilities in optical design engineering that we make available on the merchant market. Additionally, we believe that we offer value to some customers as a second or backup source of supply in the United States should they be unwilling to commit all of their source of supply of a critical component to a foreign production source. We also continue to have the proprietary GRADIUM lens glass technology and the ability to make unique, elemental-impregnated porous-silica optical media that can be used in various test and measurement and sensing applications.

Manufacturers of conventional lenses and optical components include corporations such as Eastman Kodak Corporation, Nikon, Olympus Optical Company, Carl Zeiss and Leica AG. In addition to being substantial producers of optical components, these entities are also some of the primary customers for such components, incorporating them into finished products for sale to end-users. Consequently, these competitors have significant control over certain markets for our products. In addition, although these companies do not manufacture axial gradient lenses, and although we believe that we have substantial technological expertise in this field, these companies could rapidly pursue development of axial gradient products, in light of their substantial resources. In addition, our products compete with other products currently produced by these manufacturers.

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Aspheric lenses

Manufacturers of aspheric lenses provide significant competition for our molded glass aspheric lenses in providing products that improve the shortcomings of conventional lenses. Aspheric lens system manufacturers include Panasonic and Hoya Corporation. The use of aspheric surfaces provides the optical designer with a powerful tool in correcting spherical aberrations and enhancing performance in state-of-the-art optical products. Plastic molded aspheres, on the other hand, allow for high volume production, but primarily are limited to low cost consumer products that do not place a high demand on performance (such as plastic lenses in disposable or mobile phone cameras). Molded plastic aspheres appear in products that stress cost as their measure of success over performance and durability.

To a limited extent, our GRADIUM material competes with manufacturers of other gradient index lens materials. Currently, processes to produce gradient index materials include ion-exchange and chemical vapor deposition, both of which produce small radial gradient index rods with limited applications. Manufacturers using these processes include Nippon Sheet Glass, Olympus Optical Company, and Gradient Lens Corporation.

Isolators

We compete with a few specific players in the isolator segment of the components market. These include Namiki, TDK, Tokin, Kyocera and Sumitomo. Our strategy does not involve direct competition with the "catalog" offerings of these companies; rather, we focus our efforts on designing and manufacturing specialty and hybrid components according to particular OEM specifications.

Collimators

LightPath's collimator line focuses on high power laser in the fiber laser market. There are currently only a handful of direct competitors for our collimators. These include Optoskand and Oz Optics.

Manufacturing

Molded Aspheres and GRADIUM

Most of our manufacturing is done in a 41,000 square foot production facility in Orlando, Florida. With unused space remaining in this facility, we believe our space is adequate to accommodate foreseeable needs of the Company. The facility features areas for each step of the manufacturing process including tooling and coating work areas, pre-form manufacturing, and a clean room for pressing and integrated assembly. The production facility retains an emphasis on automation, particularly in the isolator and collimator lines moved from California and New Mexico, respectively, in fiscal 2003. The facility includes new product development labs and space that include development and metrology equipment.

The molded glass asphere manufacturing area includes lens pressing equipment, high precision mold production equipment, advanced metrology and inspection equipment and coating facilities. The plant also features a tooling and machine shop, which can support: new product development; commercial production requirements for our lens holders; and the fabrication of proprietary press workstations and mold equipment.

In Orlando, we have furnaces to produce boules and glass coring equipment for our current needs of GRADIUM for our sales in the United States, and Europe. We also obtain GRADIUM boules from Hikari Glass in Japan, from whom we have an agreement to obtain a royalty for their sales of GRADIUM in Asia/Pacific.

We are ISO 9000:2001 certified. Much of our product qualification is performed in-house. Our test and evaluation capabilities include Damp Heat, High/Low Temp Storage, and a Thermal Shock Oven, which are representative of the equipment required to meet Telcordia requirements and other customer required product specifications. Our New Product Development department has CAD tools and technical support. The continuing implementation of various statistical process controls (SPC's) is being pursued to improve product yields and allow us to reduce costly manual testing operations. Quality control in manufacturing to ensure a quality end product is critical to our ability to bring our products to market, as our customers demand rigorous testing prior to their purchase of our products.

In November 2005, the Company announced the formation of LightPath Optical Instrumentation (Shanghai) Co., Ltd, a wholly owned manufacturing subsidiary, located in Jiading, PRC. The manufacturing operations are housed in a 17,000 square foot facility located in the Jiading Industrial Zone near Shanghai.

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The China plant is expected to increase overall production capacity and enable LightPath to compete for larger production volumes of optical components and assemblies, and strengthen partnerships within the Asia/Pacific region. It also provides a launching point to drive the Company's sales expansion in Asia/Pacific.

Isolators

In our Orlando clean room, our isolator manufacturing equipment includes dual beam laser welding stations, sub-micron alignment engines, robotic assembly stations, automated dispensing systems and precision dicing equipment. The primary benefits of our approach to manufacturing are (i) reduced costs as a result of higher yields and throughput, and (ii) product consistency as a result of eliminating manual labor. We believe we are the only manufacturer of free-space isolators currently using automated manufacturing.

Collimators

Our collimator assembly workstations in our Orlando clean room include our proprietary laser fusion and housing equipment, automated testing processes, and laser polishing stations.

Subcontractors and Strategic Alliances

We believe that low-cost manufacturing will be crucial to our long-term success. In that regard, we have generally used subcontractors in our production process to accomplish certain processing steps requiring capabilities that are specialized and that we have never acquired. For example, we presently use a number of qualified subcontractors for fabricating some lenses, polishing certain lenses where required, and coating them.

Our proprietary GRADIUM boules are produced by an Asia/Pacific partner under agreement with us, which remits a royalty to us for its sales to customers in Asia/Pacific. This arrangement allows our product to gain sales exposure in Asia/Pacific and provides us with a second source for boule production.

We have taken steps to protect our proprietary methods of repeatable high quality manufacturing by patent disclosures and internal trade secret controls.

Suppliers

We utilize a number of glass compositions for the manufacture of our molded glass aspheres and lens array products. However, one such glass is a glass composition licensed from and manufactured by Corning, Inc. and represents a substantial majority of our molded aspheric lens production. Corning is currently our sole source for this glass composition. We believe that a satisfactory supply of this Corning composition will continue to be available at competitive prices, although there can be no assurance in this regard. Additional sources of other glass compositions are available. We have tested selected compositions and have established a sourcing relationship with a cost effective supplier.

Base optical materials, used in both GRADIUM and collimator products, are manufactured and supplied by a number of major optical and glass manufacturers. Optical fiber and collimator housings are manufactured and supplied by a number of major manufacturers. We believe that a satisfactory supply of such production materials will continue to be available at reasonable prices, although there can be no assurance in this regard.

We also rely on local and regional vendors for component materials and services such as chemicals and inert gases, specialty ceramics, UV and AR coatings, and other specialty coatings. To date, we have found a suitable number of qualified vendors for these materials and services.

We currently purchase a few key materials from single or limited sources. The polarizing glass used in our isolator products is supplied by Corning and Hoya. To date, we have been able to acquire an ample supply of polarizing glass. Garnet and other crystals used in our isolator products are provided by a number of vendors, including Sumitomo, TDK and Triquint. Available quantities and adequate pricing of garnet is available in the open market. We believe that a satisfactory supply of production materials will continue to be available at competitive prices, although there can be no assurance in this regard.

We rely on local and regional vendors for component materials such as housings, fixtures and magnets. In addition, certain products require external processing such as brazing and metallization. To date, we have found a suitable number of qualified vendors.

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Patents and Other Proprietary Intellectual Property

Our policy is to protect our technology by, among other things, patents, trade secret protection, trademarks and copyrights. The products and technologies that we employ use patents that are both owned and maintained by us and licensed to us by others. Patents have been issued, and/or patent applications have been filed, in the areas of glass composition, glass molding, gradient geometries, and certain production processes such as fiber attachment, robotic assembly and micro-fabrication. The first of our issued patents expires in 2006; the remainder expire at various times through 2019. We do not expect a material effect to result from the expiration of the patent in 2006. Patent applications corresponding to some of our United States applications have been filed in the patent offices in Europe and Japan pursuant to the Patent Cooperation Treaty. Under the Patent Cooperation Treaty, a patent applicant may file one patent application and have it acknowledged as an accepted filing in as many member nations to the Patent Cooperation Treaty as the applicant elects.

In addition to patent protection, certain process inventions, lens designs and innovations are retained as trade secrets. A key feature of GRADIUM glass is that, once fabricated, it does not reveal our formula upon inspection and, to our knowledge, cannot be reverse-engineered.

LightPath ® is registered as a service mark in the United States and BLACK DIAMOND ®, GRADIUM ® and Polycoat ® are also registered trademarks. Other trademarks are held out and used by us under common law, such as Circulight ™.

Issued patents owned or available to us may not afford adequate protection to us or may be challenged, invalidated, infringed or circumvented. Patent applications relating to our products may not result in patents being issued. Patent rights granted to us for technologies that we may license in the future may not provide competitive advantages to us. Patents that are owned or licensed by us that are issued in one jurisdiction may not be issued in any other jurisdiction. The validity of any of our patents may not be upheld if challenged by others in litigation or if such litigation alleges that our activities infringe upon patents owned by others.

Environmental and Governmental Regulation

Currently, emissions and waste from our present manufacturing processes are at such low levels that no special environmental permits or licenses are required. In the future, we may need to obtain special permits for disposal of increased waste by-products. The glass materials we utilize contain lead and other toxic elements in a stabilized molecular form. However, the high temperature diffusion process results in low-level emissions of such elements in gaseous form. If production reaches a certain level, we believe that we will be able to efficiently recycle certain of our raw material waste, thereby reducing disposal levels. We believe that we are presently in compliance with all material federal, state and local laws and regulations governing our operations and have obtained all material licenses and permits necessary for the operation of our business.

We utilize certain chemicals, solvents and adhesives in our manufacturing process. We believe we maintain all necessary permits and believe we are in full compliance with all applicable regulations.

To our knowledge there are currently no federal, state or local regulations that restrict the manufacturing and distribution of our products. Certain end-user applications require that the complete optical systems receive government approval, such as U.S. Food and Drug Administration approval for use in endoscopy. In these cases, we will generally be involved on a secondary level and the OEM customer will be responsible for the license and approval process.

New Product Development

For many years, we were engaged in basic research and development that resulted in the invention of GRADIUM glass and certain proprietary processes for fabricating GRADIUM glass lenses. Thereafter, new product development efforts were broadened or acquired that led to the development of our capabilities in molded aspheric lenses, isolators and collimators. Today, however, as part of our cash conservation strategy, we conduct no basic research and development. Our efforts in this area are concentrated on product development to support existing and new customers in the design and manufacture of items in our three basic product lines: lenses, isolators and collimators.

As a result, our present new product development efforts are focused on markets that include Infrared Optics for imaging, blue lens applications, YAG lasers, fiber lasers, defense, medical devices, barcode scanners, optical data storage, machine vision, sensors and environmental monitoring. We incurred expenditures for new product development during the fiscal years, 2006, 2005 and 2004 of \$1,038,390, \$985,357 and \$1,022,299, respectively. We currently plan to expend approximately \$1.1 million for new product development during fiscal 2007, which could vary depending upon revenues levels, customer requirements and market opportunities perceived.

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Working Capital

We are required to carry modest amounts of inventory to meet the rapid delivery requirements of customers. We do require some customers to purchase excess inventory of custom products in the event the sales order is cancelled. We do not provide extended payment terms to any customers. Customers can return products due to quality issues for replacement or credit, but the return merchandise request must be filed in a timely manner.

Concentration of Customer Risk

In fiscal 2006 three customers, T-Networks, Intel Corporation ("Intel") and Santur comprised more than 10% of our annual sales, with T-Networks as 11% and the other two at 10%. The loss of any of these customers, or a significant reduction in sales to any such customers, would adversely affect our revenues.

Backlog

Going forward, sales growth has been and continues to be our best indicator of success. Our best view into the efficacy of our sales efforts is in our "order book." Our order book equates to sales "backlog." It has a quantitative and a qualitative aspect: quantitatively, our backlog's prospective dollar value and qualitatively, what percent of the backlog is scheduled by the customer for date-certain delivery. We define our "Disclosure Backlog" as that which is requested by the customer for delivery within one year and which is reasonably likely to remain in the backlog and be converted into revenues. This includes customer purchase orders and may include amounts under supply contracts if they meet the aforementioned criteria. Generally, higher backlog is better for the Company.

Disclosure backlog, as defined above, has been as follows in the immediately preceding six fiscal quarters:

<u>Fiscal Quarter</u>	<u>Ended</u>	<u>Approximate Disclosure Backlog</u>
Q4-2006	6/30/2006	\$4,320,000
Q3-2006	3/31/2006	\$3,617,000
Q2-2006	12/31/2005	\$3,001,000
Q1-2006	9/30/2005	\$2,507,000
Q4-2005	6/30/2005	\$2,592,000
Q3-2005	3/31/2005	\$2,488,000

Geographic Area Financial Information

Our revenues were primarily from the United States, but we did have 16% of our revenues from Europe, North Africa and Asia.

Employees

At June 30, 2006, we had 149 full-time equivalent employees, with 100 in Florida and 49 in China. Any employee additions or terminations over the next twelve months will be dependent upon the actual sales levels realized during fiscal 2007. Eight of our employees are engaged in management, administrative and clerical functions, nine in new product development, eleven in sales and marketing and 121 are in production and quality functions. Additionally we had 58 persons on temporary or contractor status. We have used and will continue utilizing part-time help, temporary employment agencies and outside consultants, where appropriate, to qualify prospective employees and to ramp up production as required from time to time. None of our employees is represented by labor unions.

Executive Officers

As of August 2006, the following individuals are serving as executive officers:

Kenneth Brizel has served as a Director of LightPath, Chief Executive Officer and President since July 2002. Mr. Brizel has spent more than 20 years in the communications and microelectronics industries. From October 2000 until July 2002 he was Senior Vice President Strategy and Business Development for Oplink Communications. From April 1997 to September 2000, Mr. Brizel was Director of Strategic Marketing for Optoelectronics and Network Communications Integrated Circuits groups within Lucent Microelectronics. Mr. Brizel's diverse experiences include assignments at RCA/GE, Lucent/Agere, Mostek and Star Semiconductor before joining Oplink. His responsibilities spanned sales, engineering, marketing strategy and business development. Mr. Brizel received his Bachelor of Science and Master of Science degrees in Electrical Engineering from Rensselaer Polytechnic Institute in Troy, New York.

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Dorothy Cipolla has been Corporate Vice President, Chief Financial Officer, Secretary and Treasurer since February 2006. Ms. Cipolla has served as a CFO for both public and private companies. Ms. Cipolla was Chief Financial Officer and Secretary of LaserSight Technologies, Inc., from March 2004 to February 2006. Prior to joining LaserSight, she served in various financial management positions. From 1994 to 1999, she was Chief Financial Officer and Treasurer of Network Six, Inc., a NASDAQ-listed professional services firm. From 1999 to 2002, Ms. Cipolla was Vice President of Finance with Goliath Networks, Inc., a privately held network consulting company. From 2002 to 2003, Ms. Cipolla was Department Controller of Alliant Energy Corporation, a regulated utility. She received a Bachelor of Science degree in Accounting from Northeastern University and she is a certified public accountant in Massachusetts.

James Magos has been our Corporate Vice President of Sales and Marketing since July 2006. Prior to that he was our Senior Vice President of Sales since August 2003. From January 1999 to August 2003, Mr. Magos was Vice President and Chief Operating Officer for Cardinal Components Inc., a crystal manufacturer. Prior to joining Cardinal Components, Inc., he served as Vice President of Sales & Marketing for IQ Systems, Inc., Star Semiconductor, Logic Device Corporation, Harris Semiconductors (Intersil), RCA and General Electric. Mr. Magos earned his Bachelor of Science degree in Business Management from Long Island University and extensive management training during his tenure with GE, RCA and Harris.

Edward Patton has been our Vice President of Marketing since January 2003. He joined LightPath's Geltech sales and marketing group in 1998. Mr. Patton has held a variety of senior positions in the photonics industry with firms that have marketed products including optics, detectors, thin-film filters, and laser diodes into such markets as medical, industrial, defense and communications. Mr. Patton has served as Vice President Sales and Marketing at both EG&G Optoelectronics and Graseby Electro-Optics and served as President and General Manager of Graseby Infrared. Mr. Patton earned his Bachelor of Science degree in Criminal Justice from Northeastern University.

Dr. Zhouling (Joe) Wu has been our Corporate Vice President and President of China Operations since July 2006. Prior to that he was Vice President from Aug 2005. Prior to joining LightPath, Dr. Wu was the General Manager for Oplink Shanghai and was the assistant to the CEO working for Oplink Communications beginning in 2000. From 1997 till 2000, Dr. Wu was an optical scientist at Lawrence Livermore National Labs and holds a Ph.D. in optics from the Shanghai Institute of Optics and Fine Mechanics, an undergraduate degree from Tsinghua University in Beijing and an Executive MBA degree from Olin School of Business, Washington University. Dr. Wu has published 120 technical papers, one patent, and received numerous achievement awards and honors.

Jim Gaynor has been Corporate Vice President Operations since July 2006. Mr. Gaynor is a mechanical engineer with 25 years of business and manufacturing experience in volume component manufacturing in electronics and optics industries. Prior to joining LightPath from August 2002 to July 2006, Mr. Gaynor was Director of Operations and Manufacturing for Puradyn Filter Technologies. Previous to that he was Vice president of Operations and General Manager for JDS Uniphase Corporation's Transmission Systems Division from March 2000 to April 2002. He has also held executive positions with Spectrum Control, Rockwell International and Corning Glass Works. His experience includes various engineering, manufacturing and management positions in specialty glass, electronics, telecommunications components and mechanical assembly operations. His global business experience encompasses strategic planning, budgets, capital investment, employee development, cost reduction, acquisitions and business start-up and turnaround success. Mr. Gaynor holds a Bachelors of Science degree in Mechanical Engineering from the Georgia Institute of Technology and has worked in manufacturing industries since 1976.

Risk Factors

The following risk factors should be read by you together with the more detailed information included at other sections of this Form 10-K. You should understand that it is not possible to predict or identify all such risk factors. Consequently, you should not consider this list to be a complete statement of all potential risks or uncertainties. An investment in our common stock is extremely risky. You should carefully consider the following risk factors and other information in this Form 10-K before investing in our common stock. Our business and the results of operations could be seriously harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose part or all of your investment.

There are forward-looking statements in these risk factors and elsewhere in this report. We use words such as "believe", "expect", "anticipate", "plan" or similar words to identify forward-looking statements and any statement relating to plans, intentions, expectations or other forward-looking expression is a forward-looking statement. Forward-looking statements are made based upon our belief as of the date that such statements are made and are based largely on our current expectations and are subject to a number of risks and uncertainties, many of which are beyond our control. You should not place undue reliance on these forward-looking statements, which speak as of the date of this report. While we may make other forward-looking statements either orally or in writing in the future, we do not assume the obligation to update any forward-looking statement. The following risk factors are intended to be cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements.

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Our fiscal year ends on June 30 and references to years in this Form 10-K refer to our fiscal year ended as of June 30 of the referenced calendar year.

A. Risks Related To Our Business and Financial Results

We Have Substantial Cash Requirements And May Need External Financing To Fund Our Operations. While we have raised capital recently and continue to take actions to reduce cash used in operations, there can be no assurance that we will generate sufficient cash to fund our future operations and growth strategies. We may need to obtain additional external financing in the future. We do not have any commitments from others to provide additional financing in the future, and there can be no assurance that any such additional financing will be available if needed or, if available, will be on terms favorable to us. Any additional equity financing may be dilutive to shareholders, and debt financings, if available, may involve substantial restrictive covenants or require the pledging of substantially all of our assets.

The Company's cash used in operations was approximately \$2.0 million compared to \$1.1 million used in fiscal 2005. Our cash flow projections for the 2007 fiscal year indicate we have sufficient cash available to fund our operations for at least the next 12 months. However, the operating plans and financial projections may not be fully achieved. Factors which could increase cash used in future quarters include, but are not limited to, a decline in revenue, collectibility issues with regard to accounts receivable, increased material costs, increased labor costs, increased health insurance and benefits costs and increases in discretionary spending.

Should we find it necessary to raise more capital, in addition to the capital raised in March 2006, we may find that such funds are either not available or are available only on terms that are unattractive in terms of cost or dilution of existing shareholders' interests, or both. In the event that we find it necessary to raise additional funds to sustain operations and we are unable to do so, we may need to take such actions as additional restructuring of operations to reduce costs, or to discontinue operations altogether. Should that occur, the realizability of our assets, especially inventory, property and equipment, intellectual property and other intangible assets may be such that significant adjustments to our consolidated financial statements would be required.

We Have A History Of Losses And If We Continue To Incur Losses Our Business May Fail. We have incurred net losses of \$ 3.4 million, \$3.5 million, and \$5.6 million for fiscal 2006, 2005 and 2004, respectively, and we had an accumulated deficit of \$189.7 million as of June 30, 2006. We expect to continue to incur significant sales and marketing, administrative and product development expenses, and, as a result, we will need to generate increased revenues to achieve profitability. Even if we achieve profitability, given the competition in our optical markets, we may not be able to sustain or increase profitability thereafter on a quarterly or annual basis. As a result, we will need to generate significantly higher revenues while containing costs and operating expenses if we are to achieve profitability.

Our Failure to Maintain Compliance With Certain Listing Criteria Of NASDAQ Could Adversely Affect the Value of Our Common Stock. Our common stock is currently traded on the NASDAQ Capital Market ("NCM"). Going forward, failure to meet the applicable quantitative and/or qualitative maintenance requirements of NASDAQ could result in our securities being delisted entirely from NASDAQ. Moreover, NASDAQ has sole discretion in changing the initial and continued listing criteria for its markets, and such changes usually tend to tighten or toughen the standards, not to reduce them. Therefore, there can be no assurance that NASDAQ will not change the NCM continued listing criteria in the future such that we might no longer qualify for listing on the NCM. In the unlikely event we are delisted entirely from NASDAQ, our securities may be eligible for trading on the OTC Bulletin Board or on other unlisted markets such as The Pink Sheets, although there can be no assurance that our securities will be eligible for trading on any alternative exchanges or markets. As a consequence of such delisting, an investor could find it more difficult to dispose of or to obtain accurate quotations as to the market value of our securities. Among other consequences, delisting from NASDAQ may cause a decline in the stock price and difficulty in obtaining future financing.

Because Of Our Dependence On A Few Key Customers, The Loss of Any Key Customer Could Cause A Significant Decline In Our Revenues. In fiscal 2006, Intel accounted for approximately 10% of our net revenue and our top five customers accounted for approximately 45% of our revenues. In fiscal 2005 and 2004, Intel accounted for 13% and 16% of our net revenue, respectively. Part of our continuing strategy in fiscal 2006 was to gain key customer relationships of more significance and impact to generate higher revenues at lower costs. This strategy has met with some success and therefore we believe that that our operating results will continue to be notably dependent on sales to a relatively small number of significant customers. The loss of any of these customers, or a significant reduction in sales to any such customers, would adversely affect our revenues.

Order Cancellations And Extensions Of Product Shipment Dates By Customers Can Hinder Our Ability To Achieve Profitability. Our sales are generally made pursuant to purchase orders that are subject to cancellation, modification or rescheduling without significant penalties to our customers. In recent years, we have experienced material order cancellations and significant extensions of product shipment dates by some of our customers. If current customers stop placing orders, or unexpectedly reduce orders, we may not be able to replace these orders with orders from new customers and our ability to achieve profitability will be adversely affected. The majority of our current customers do not have any minimum purchase obligations, and they may stop placing orders with us at any time, regardless of any forecast they may have previously provided.

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Our New Market Penetration Efforts Are At An Early Stage Of Development And May Not Prove Successful. Our efforts to diversify our sales to additional optical applications in multiple industries are still in an early phase and our current line of products has not generated sufficient revenues to sustain our operations. While we believe our existing products are commercially viable, we anticipate the need to educate the optical components markets in order to generate market demand and market feedback may require us to further refine these products. Development of significant additional product lines will require significant further research, development, testing and marketing prior to commercialization. There can be no assurance that any proposed products will be successfully developed, demonstrate desirable optical performance, be capable of being produced in commercial quantities at reasonable costs or be successfully marketed.

Some Of Our Products Have Not Been Demonstrated To Be Commercially Successful. Although our optical lens products have been accepted commercially, the benefits of the GRADIUM glass line are not widely known and must be introduced as we can afford in markets that we believe would benefit from the performance characteristics of GRADIUM. Many prospective customers will need to make substantial expenditures in order to redesign products to incorporate our GRADIUM lenses. There can be no assurances that potential customers will view the benefits of our products as sufficient to warrant such design expenditures.

Our collimator products have not yet achieved broad commercial acceptance; our isolator production capability and sales, while encouraging at this point, are only six years old; and some of our molded aspheres applications are new. There can be no assurance that any of these will be commercially viable products or produce significant revenues. Further, there is no assurance that any products currently existing or to be developed in the future will attain sufficient market acceptance to generate significant additional revenues that are necessary for our success. We must also satisfy industry-standard Telcordia testing on telecommunication products to meet customer requirements, as well as satisfy prospective customers that we will be able to meet their demand for quantities of products, since we may be the sole supplier and licensor. We do not have lengthy experience as a manufacturer for all our product lines and have limited financial resources. We may be unable to accomplish any one or more of the foregoing to the extent necessary to develop commercially successful market acceptance of our products.

Our Relatively Short Operating History May Hinder Our Ability To Accurately Forecast Revenues And Expenses. Although 20 years old, LightPath has only generated significant revenues (higher than \$5 million per year) since fiscal 2000. Through fiscal 1996, our primary activities were basic research and development of glass material properties. Because of this short and highly variable operating experience and the turnover in management in the last four years, we have in the past and may in the future be unable to accurately forecast our revenues from sales of our products, and we have limited meaningful historical financial data upon which to plan future operating expenses. Many of our expenses are fixed in the short term, and we may not be able to quickly reduce spending if our revenue is lower than we project. New product introductions will also result in increased operating expenses in advance of generating revenues, if any. Therefore, net losses in a given quarter could be greater than expected. Failure to accurately forecast our revenues and future operating expenses could cause quarterly fluctuations in our operating results, including cash flows, and may result in further volatility of or a decline in our stock price.

If We Are Unable To Develop And Successfully Introduce New And Enhanced Products That Meet The Needs Of Our Customers, Our Business May Fail. Our future success depends, in part, on our ability to anticipate our customers' needs and develop products that address those needs. Introduction of new products and product enhancements will require that we effectively transfer production processes from research and development to manufacturing and coordinate our efforts with the efforts of our suppliers to rapidly achieve efficient volume production. If we fail to effectively transfer production processes, develop product enhancements or introduce new products that meet the needs of our customers as scheduled, our net revenues may decline.

Our Sales, Gross Margins, And Market Share May Be Reduced Because Of Increased Competition. Competition in optical markets in which we compete is intense. Many of our competitors are large public and private companies that have longer operating histories and significantly greater financial, technical, marketing and other resources than we have. As a result, these competitors are able to devote greater resources than we can to the development, promotion, sale and support of their products. In addition, the market capitalization and cash reserves of several of our competitors are much larger than ours, and, as a result, these competitors are much better positioned than we are to acquire other companies in order to gain new technologies or products that may displace our product lines. Such acquisitions could give our competitors further advantages. For example, if our competitors acquire any of our significant customers, these customers may reduce the amount of products they purchase from us. Alternatively, some of our competitors may spinout new companies in the optical component and module market. These companies may compete more aggressively than their former parent companies due to their greater dependence on our markets. In addition, many of our potential competitors have significantly more established sales and customer support organizations, much greater name recognition, more extensive customer bases, more developed distribution channels and broader product offerings than we have. These companies can leverage their customer bases and broader product offerings and adopt aggressive pricing policies to gain market share. Additional competitors may enter the market, and we are likely to compete with new companies in the future. We expect to encounter potential customers that, due to existing relationships with our competitors, are committed to the products offered by these competitors. As a result of the foregoing factors, we expect that competitive pressures may result in price reductions, reduced margins and loss of market share.

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We compete with manufacturers of conventional spherical lens products and aspherical lens products, producers of optical quality glass and other developers of gradient lens technology as well as telecom product manufacturers. In both the optical lens and communications markets, we are competing against, among others, established international companies, especially in Asia. Many of these companies also are primary customers for optical and communication components, and therefore have significant control over certain markets for our products. We are also aware of other companies that are attempting to develop radial gradient lens technology. There may also be others of which we are not aware that are attempting to develop axial gradient lens technology similar to our technology. There can be no assurance that existing or new competitors will not develop technologies that are superior to or more commercially acceptable than our existing and planned technologies and products.

To maintain or improve our gross margins, we must continue to reduce the manufacturing cost of our products. We continue to take actions that are projected to reduce our material costs by obtaining additional sources for raw materials, reducing the labor costs of our production operations by establishing manufacturing capabilities in low cost regions and reducing our overhead expenses through process improvements and competitive sourcing. We believe these actions will allow us to make continued improvements in our profitability and cash requirements.

We Anticipate Further Reductions in the Average Selling Prices Of Our Products and Therefore Must Increase Our Sales Volumes, Reduce Our Costs and/or Introduce Higher Margin Products To Reach And Maintain Financial Stability. We have experienced decreases in the average selling prices of some of our products over the last five years, including most of our passive component products. We anticipate that as products in the optical component and module market become more commodity-like, the average selling prices of our products will decrease in response to competitive pricing pressures, new product introductions by us, our competitors or other factors. If we are unable to offset this anticipated decrease in our average selling prices by increasing our sales volumes or product mix, our net revenues and gross margins will decline, increasing the projected cash needed to fund operations. To address these competitive pressures, we must develop and introduce new products and product enhancements with higher margins. If we cannot maintain or improve our gross margins, our financial position may be harmed and our stock price may decline.

Because Of Our Limited Product Offerings, Our Ability To Generate Additional Revenues May Be Adversely Affected. We derive a substantial portion of our net revenues from a limited number of products. We expect that net revenues from a limited number of products will continue to account for a substantial portion of our total net revenues. Demand for these and other optical market products had declined materially in recent years; however, demand has improved since late fiscal 2003. Continued and expanding market acceptance of these products is critical to our future success. We cannot assure you that, once the communication industry and general economic conditions improve, our current or new products will achieve market acceptance at the rate at which we expect, or at all, which could adversely affect our results of operations.

If We Do Not Expand Our Sales and Marketing Organization, Our Revenues May Not Increase. The sale of our products requires long and involved efforts targeted at several key departments within our prospective customers' organizations. Sales of our products require the prolonged efforts of sales, and sometimes executive, personnel, as well as specialized systems and applications engineers working together. Currently, our sales and marketing organization is somewhat limited. We believe we will need to increase our sales force in order to increase market awareness and sales of our products. Competition for qualified individuals remains, and we might not be able to hire the kind and number of sales and marketing personnel and applications engineers we need. If we are unable to expand our sales operations, we may not be able to increase market awareness or sales of our products, which would prevent us from increasing our revenues.

If We Are Unable To Make Sales In A Fragmented Market Our Revenues May Not Increase. The markets for optical lenses and laser components are highly fragmented. Consequently, we will need to identify and successfully target particular market segments in which we believe we will have the most success. These efforts will require a substantial, but unknown, amount of effort and resources. The fragmented nature of the optical products market may impede our ability to achieve commercial acceptance for our products. In addition, our success will depend in great part on our ability to develop and implement a successful marketing and sales program. There can be no assurance that any marketing and sales efforts undertaken by us will be successful or will result in any significant product sales.

Our Products Have Long And Variable Sales Cycles Which Reduce Our Ability To Accurately Forecast Revenues. The timing of our revenue is difficult to predict because of the length and variability of the sales and implementation cycles for our products. We do not recognize revenue until a product has been shipped to a customer, all significant vendor obligations have been performed and collection is considered probable. Customers may view the purchase of our products as a significant and strategic decision. As a result, customers typically expend significant effort in evaluating, testing and qualifying our products and our manufacturing process. This customer evaluation and qualification process frequently results in a lengthy initial sales cycle (often up to one year). While our customers are evaluating our products and before they place an order with us, we may incur substantial sales, marketing and product development expenses to customize our products to the customer's needs. We may also expend significant management efforts,

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increase manufacturing capacity and order long lead-time components or materials prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. Because of the evolving nature of the optical markets, we cannot predict the length of these sales and development cycles. These long sales cycles may cause our revenues and operating results to vary significantly and unexpectedly from quarter to quarter, which could continue to cause volatility in our stock price.

Current And Pending Litigation May Adversely Impact Operating Results. On May 2, 2000, we commenced a class action lawsuit in the Chancery Court of Delaware, New Castle County (the "Delaware Action" seeking a declaratory judgment with respect to (i) our right to redeem our Class E common stock on March 31, 2001 for \$.0001 per share, (ii) the right of the holders of Class E common stock to vote at the Annual Meeting to be held on October 6, 2000, and (iii) for certification of the holders of Class E common stock as a class and the named defendants as its representatives. The Delaware Action was settled in fiscal 2002 with the final settlement agreement requiring us to pay \$0.40 per share to each Class E shareholder. The settlement agreement permitted Class E shareholders to elect not to participate in the settlement and thus was not binding on any Class E shareholders who so elected. Approximately 12% of the former Class E shareholders elected not to participate in the settlement (see Texas Action described below). Since the beginning of fiscal 2003, we have distributed approximately \$1.4 million of the \$1.5 million estimated total cost arising under the settlement agreement.

On or about June 9, 2000, a small group of holders of Class E common stock commenced an action against the Company in a state court in Texas. Plaintiffs in the Texas Action made various allegations regarding the circumstances surrounding the issuance of the Class E common stock and sought damages based upon those allegations. Management believes the allegations underlying the Texas Action are without merit.

On October 10, 2002, the Texas court granted the Company's motion for summary judgment dismissing all claims against the Company. The plaintiffs sought reconsideration of the ruling, however, the motion for reconsideration was denied and a final judgment in favor of the Company was signed on March 1, 2004. The plaintiffs appealed the summary judgment to the Fourteenth Court of Appeals in Houston, Texas. On October 20, 2005, the court of appeals affirmed the summary judgment and upheld the trial court's dismissal of all claims against the Company.

The plaintiffs appealed that ruling by filing a petition for review with the Texas Supreme Court on January 31, 2006. On April 7, 2006, the Texas Supreme Court denied the plaintiffs' petition for review. On May 26, 2006, the Texas Supreme Court denied the plaintiffs' motion for rehearing of the denial of the petition for review. No further review was sought by the plaintiffs. The summary judgment in favor of the Company as to all claims asserted by the plaintiffs is now final and the case is closed.

We from time to time are involved in various legal actions arising in the normal course of business. Prior to the filing of this Report we were notified of employment practices claims from former employees. We consider the likelihood of these employees being successful as remote. Currently, in conjunction with legal counsel, we are evaluating the effect if any on our financial position or results of operations.

We may from time to time become involved in other lawsuits and legal proceedings. Litigation is expensive and is subject to inherent uncertainties, and an adverse result in any such matters could adversely impact our operating results or financial condition. Additionally, any litigation to which we are subject could also require significant involvement of our senior management and may divert management's attention from our business and operations.

Sales, Political, Currency And Other Risks Associated With Our International Sales And Supply Could Negatively Impact Our Business. For fiscal 2006, approximately 16% of our net revenues were from sales to international customers; and, in fiscal 2005, approximately 12% of our net revenues were from sales to international customers. Our international sales will be limited if we cannot establish and/or maintain relationships with international distributors, establish foreign operations, expand international sales, and develop relationships with international service providers. Additionally, our international sales may be adversely affected if international economies weaken. We are subject to risks including the following:

- greater difficulty in accounts receivable collection and longer collection periods;
- the impact of recessions in economies outside the United States;
- unexpected changes in regulatory requirements;
- unexpected changes in foreign demand in response to exchange rate fluctuations;
- certification requirements;
- reduced protection for intellectual property rights in some countries;

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- potentially adverse tax consequences; and
- political and economic instability.

While we expect our international revenues to be denominated predominantly in U.S. dollars, in the future a portion of our international revenues and expenses may be denominated in foreign currencies. Accordingly, we could experience the risks of fluctuating currencies and corresponding exchange rates.

We also source certain raw materials from outside the United States. Some of those materials, priced in non-dollar currencies, have risen in price due to the recent decline of the U.S. dollar against non-dollar-pegged currencies, especially the Euro. This lowers our margins and reduces our ability to reach positive cash flow and profitability.

Our Business Has Been Subject To Fluctuations In Quarterly Results And Continued Fluctuations Could Negatively Impact Our Stock Price. The market price of our common stock could be subject to wide fluctuations in response to quarterly variations in operating results. Revenues and results of operations are difficult as yet to predict and may fluctuate substantially from quarter to quarter. For example, as a result of revenues associated with any of our key customers, any cancellation of orders from a key customer could result in significant fluctuations in quarterly results. Quarterly results have also been and may continue to be affected by asset write-downs associated with communications market weakness, our headquarters and plant consolidations and other matters, including negative cash flow.

We May Issue Additional Securities With Rights Superior To Those Of The Common Stock, Which Could Materially Limit The Ownership Rights Of Shareholders. We may offer additional debt or equity securities in private and/or public offerings in order to raise working capital or to refinance our debt. Our board of directors has the right to determine the terms and rights of any debt securities and preferred stock without obtaining the approval of the stockholders. It is possible that any debt securities or preferred stock that we sell would have terms and rights superior to those of the common stock and may be convertible into common stock. Any sale of securities could adversely affect the interests or voting rights of the holders of common stock, result in substantial dilution to existing stockholders, or adversely affect the market price of our common stock. We have no present plans to issue any convertible preferred stock or any other preferred stock.

Our Stock Price Has Been, And May Continue To Be, Subject To Large Price Swings, Which We Are Not Able To Control. Broad market fluctuations or fluctuations in our operations may adversely affect the market price of our common stock. The market for our Class A common stock is volatile, the bid-ask spread is often large and the trading volume and activity can be low and sporadic. The trading price of our common stock has been and will continue to be subject to:

- volatility in the trading markets generally and in our particular market segment;
- limited trading of our common stock;
- significant fluctuations in response to quarterly variations in operating results;
- announcements regarding our business or the business of our customers or competitors;
- changes in prices of our or our competitors' products and services;
- changes in product mix;
- changes in revenue and revenue growth rates;
- other events or factors;
- limited trading of our common stock;
- significant fluctuations in response to quarterly variations in operating results;
- announcements regarding our business or the business of our customers or competitors;
- changes in prices of our or our competitors' products and services; and/or
- changes in product mix.

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Statements of or changes in opinions, ratings or earnings estimates made by brokerage firms or industry analysts relating to the markets in which we operate or expect to operate could have an adverse effect on the market price of our Common Stock. In addition, the stock market as a whole, as well as our particular market segment, have from time to time experienced extreme price and volume fluctuations which have particularly affected the market price for the securities of many companies and which often have appeared unrelated to the operating performance of these companies. Although our shares are publicly traded on NASDAQ, the trading market for our shares can be limited. During the fiscal year ended June 30, 2006, NASDAQ-reported trading volume for our shares averaged 5,324 shares per trading day. We cannot forecast or control any material increase in the trading volume for our shares. A lack of an active trading market for our shares could negatively impact stockholders' ability to sell their shares when they desire and the price, which they could obtain.

The Fact That We Do Not Expect To Pay Dividends May Lead To A Decreased Price For Our Stock. Our board of directors has never declared a dividend on our common stock. We do not anticipate paying dividends on our common stock in the foreseeable future. Due to U.S. tax law changes in 2003, dividends may be more valuable on an after-tax basis as a component of investment return, potentially diminishing the appeal of holding our common stock. It is anticipated that our earnings, if any, will be reinvested in sales growth activities for our business.

Our Management And Principal Shareholders Control A Substantial Amount Of Our Stock And May, Therefore, Influence Our Affairs. If our management and a few principal shareholders act in concert, disposition of matters submitted to shareholders or the election of our entire board of directors may be hindered. We estimate that management, including directors, and our principal shareholders (shareholders owning more than 5% of our common stock) beneficially owned approximately 21% of the aggregate common stock outstanding as of June 30, 2006.

Our Charter Documents And Delaware Law May Inhibit A Takeover. In certain circumstances, the fact that corporate devices are in place that will inhibit or discourage takeover attempts could reduce the market value of our common stock. Our Certificate of Incorporation, Bylaws and certain other agreements contain certain provisions that may discourage other persons from attempting to acquire control of us. These provisions include, but are not limited to:

- staggered-terms of service for our board of directors;
- the authorization of the board of directors to issue shares of undesignated preferred stock in one or more series without the specific approval of the stockholders;
- the fact that in 1998 we adopted a stockholder rights plan and declared a dividend distribution of a right to purchase one share of Series D Participating Preferred Stock for each outstanding share of Class A common stock. The description and terms of such rights are set forth in a Rights Agreement dated as of May 1, 1998 between LightPath and Continental Stock Transfer & Trust Company, as Rights Agent. A copy of the Rights Agreement and related documents are filed as an Exhibit to this registration statement;
- the establishment of advance notice requirements for director nominations and actions to be taken at annual meetings; and
- the fact that special meetings of the stockholders may be called only by our Chairman, President or upon the request of a majority of our board of directors.

All of these provisions, as well as the provisions of Section 203 of the Delaware General Corporation Law (to which we are subject), could impede a merger, consolidation, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Outstanding Warrants, Stock Options And Restricted Stock Agreements May Inhibit Our Ability To Accomplish Future Financings And Adversely Affect Our Stock Price. The existence of our outstanding warrants, options and restricted stock and the potential for sales of significant amounts of previously unregistered shares of our Common Stock in the public market, or the perception that such sales could occur, may adversely affect the terms on which we can obtain additional financing or the prevailing market price of our Common Stock. As of June 30, 2006, there were issued and outstanding:

- 4,468,588 shares of our common stock;
- warrants issued in private placement and other transactions pursuant to which 385,156 shares of Common Stock are issuable, at a weighted average exercise price of approximately \$8.00 per share;
- outstanding options under our Amended and Restated Omnibus Plan to purchase an aggregate of 187,794 shares of our common stock, with a weighted average exercise price of approximately \$17.34 per share; and
- restricted stock award grants for 178,100 shares of our common stock that have been granted of which 77,050 have vested;

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In addition, 224,394 shares of our common stock were reserved as of July 31, 2006, for issuance pursuant to future grants to be made under our Amended and Restated Omnibus Incentive Plan.

For the life of such options and warrants, the holders will have the opportunity to profit from a rise in the price of the underlying common stock, with a resulting dilution in the interest of other holders of common stock upon exercise or conversion. Further, the option and warrant holders can be expected to exercise their options and warrants at a time when we would, in all likelihood, be able to obtain additional capital by an offering of our unissued common stock on terms more favorable than those originally provided by such options or warrants. Of the total number of shares of common stock currently issued and outstanding, there are likely a small number of unregistered shares outstanding, other than those held by the selling stockholders, and some of those shares may be freely traded or may be traded under certain volume and other restrictions set forth in Rule 144 promulgated under the Securities Act of 1933 (the "Securities Act").

We Have Agreed To Certain Limitations Upon Potential Liability Of Our Directors, Which Could Prevent Recovery Of Monetary Damages. Our Certificate of Incorporation provides that directors will not be personally liable for monetary damages to the Company or its shareholders for a breach of fiduciary duty as a director, subject to limited exceptions. Although such limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission, the presence of these provisions in our Certificate of Incorporation could prevent the recovery of monetary damages by the Company or its shareholders.

We May Have Difficulty Obtaining Director And Officer Liability Insurance In Acceptable Amounts For Acceptable Rates. We carry insurance protecting our officers and directors and us against claims relating to the conduct of our business ("D&O insurance"). D&O insurance covers the costs incurred by companies and their management to defend against and resolve claims relating to management conduct and results of operations, such as securities class action claims. These claims are extremely expensive to defend against and resolve. Therefore we purchase and maintain D&O insurance to cover some of these costs. We pay significant premiums to acquire and maintain D&O insurance, which is provided by third-party insurers, and we agree to underwrite a portion of such exposures under the terms of these insurance coverages. During fiscal 2006 and 2005 we were able to renew our D&O insurance for a reduction in premium over the prior year. We cannot assure that, in the future, we will be able to obtain what we adjudge to be sufficient director and officer liability insurance coverage at acceptable rates and with acceptable deductibles and other limitations. Further, due to our available financial resources at the time the current coverage expires (February 2007), we may be unable to pay for or we may choose not to seek as much coverage as we adjudge to be sufficient. Failure or inability to obtain such insurance, or the election to accept less than we adjudge sufficient or none at all, could materially harm our financial condition in the event that we are required to defend against and resolve any future securities class actions or other claims made against us or our management arising from the conduct of our operations. Further, obtaining such insurance in an inadequate amount or obtaining none at all may impair our future ability to retain and recruit qualified officers and directors.

Business Interruptions Could Adversely Affect Our Business. We manufacture a majority of our products at our manufacturing facility in Orlando, Florida, and our revenues are dependent upon the continued operation of this facility. This facility is subject to a lease that expires in 2008 unless renewed pursuant to terms mutually agreeable to our landlord and us. Our operations are vulnerable to interruption by fire, hurricane, winds and rain, electric power loss, telecommunications failure and other events beyond our control. We do not have a detailed disaster recovery plan, and we do not have a backup facility or contractual arrangements with any other manufacturers in the event of a casualty to or destruction of the facility or if the facility ceases to be available to us for any other reason. If we are required to rebuild or relocate our manufacturing facility, a substantial investment in improvements and equipment would be necessary. We carry only a limited amount of business interruption insurance, which may not sufficiently compensate us for losses that may occur. Our facilities may be subject to electrical blackouts as a consequence of a shortage of available electrical power. We currently do not have backup generators or alternate sources of power in the event of a blackout. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at our facility. Any losses or damages incurred by us as a result of blackouts, rebuilding, relocation or other business interruptions, including the aforementioned, could result in a significant delay or reduction in manufacturing and production capabilities, impair our reputation, harm our ability to retain existing customers and to obtain new customers, and could result in reduced sales, lost revenue, and/or loss of market share, any of which could substantially harm our business and the results of operations.

As an example of this type of risk, the Company experienced an electric power outage at its facility caused by a storm named "Hurricane Charley" from the evening of August 13, 2004 to the morning of August 17, 2004. During this period, we were without the use of our production capacity and lost approximately six shifts of production.

Our Business Depends, In Part, Upon The Efforts Of Third Parties, Which We Cannot Control. Part of our strategy for the research, development and commercialization of certain products entails entering into various arrangements with corporate partners, OEMs, licensees and others in order to generate product sales, license fees, royalties and other funds adequate for product development or to enhance commercial prospects. We may also rely on our collaborative partners to conduct research efforts, product

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testing and to manufacture and market certain of our products. Although we believe that parties to any such arrangements would have an economic motivation to succeed in performing their contractual responsibilities, the amount and timing of resources to be devoted to these activities may not be within our control. There can also be no assurance that we will be successful in establishing any such collaborative arrangements or that, if established, the parties to such arrangements will assist us in commercializing products. We have a non-exclusive agreement with a catalog company to distribute certain of our products. We have agreements with nine foreign distributors to create markets for GRADIUM and our other products in their respective countries. There can be no assurance, however, that these parties, or any future partners, will perform their obligations as expected or that any revenue will be derived from such arrangements.

Future Acquisitions To Add To Our Product, Process Or Management Capabilities May Fail To Produce The Desired Benefits And Will Likely Be Dilutive To Existing Shareholders. We anticipate that in the future, as part of our business strategy, we may find strategic acquisitions of complementary companies, products or technologies to be desirable. In the event of any such future acquisitions, we could:

- issue stock that would dilute our current stockholders' percentage ownership;
- incurring debt;
- assume liabilities; or
- incur expenses related to in-process research and development and intangible assets.

Any future acquisitions also could involve numerous risks, including:

- problems associated with combining the acquired operations, technologies or products; incur debt;
- unanticipated costs or liabilities;
- diversion of management's attention from our existing business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees, particularly those of the acquired entities.

We cannot assure that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future, which may harm our business.

The Loss Of, Or Our Inability To Hire, Key Personnel Would Reduce Our Ability To Manage Our Business Effectively. Our future success depends upon the continued services of our executive and non-executive officers and other key engineering, sales, marketing, manufacturing and support personnel. Our inability to retain or attract key employees could have a material adverse effect on our business and results of operations. Our operations depend, to a great extent, upon the efforts of our management. We also depend upon our ability to attract additional members to our operations teams to support our strategy. The loss of any of these key employees would adversely affect our business. We had 149 full-time equivalent employees, with 100 in Florida and 49 in China as of June 30, 2006. We also had 58 workers on a contractor status. We expect to continue to hire selectively in the manufacturing, engineering, sales and marketing and administrative functions to the extent consistent with our business levels. Our ability to continue to attract and retain highly skilled personnel will be a critical factor in determining whether we will be successful. Competition for highly skilled personnel is intense. We may not be successful in attracting, assimilating or retaining qualified personnel to fulfill our current or future needs, which could adversely impact our ability to develop and sell our products.

We Rely On The Efforts Of Our Chief Executive Officer, And The Loss Of His Services Could Materially Adversely Affect Our Business. Our success will be largely dependent upon the personal efforts and abilities of Kenneth Brizel, our President and Chief Executive Officer. Mr. Brizel is not bound by an employment agreement. If Mr. Brizel ends his relationship with the company before a qualified replacement is found, then our business, prospects and results of operations could be materially adversely affected.

B. Risks Related To The Optical Networking Industry

Sales Of Some Of Our Products Depend Upon Use Of Optical Networks To Satisfy Increased Bandwidth Requirements. The future success of this market depends on the continuing increase in the amount of data transmitted over communications networks, or

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bandwidth, and the growth of optical networks to meet the increased demand for bandwidth. If the Internet does not continue to expand as a widespread communications medium and commercial marketplace, the need for significantly increased bandwidth across networks and the market for optical networking products may not continue to develop. Future demand for our products is uncertain and will depend to some degree on the continued growth and upgrading of optical networks. If the growth and upgrading of optical networks does not continue, sales of some of our products may decline, which would adversely affect our revenues.

The Optical Networking Market Is New And Unpredictable And Characterized By Rapid Technological Changes And Evolving Standards. The optical networking market is relatively new and is characterized by rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Because this market is relatively new, it is difficult to predict its potential size or future growth rate. It has already gone through a virulent decline. Widespread adoption of optical networks would be helpful to our future success. Potential end-user customers who have invested substantial resources in their existing copper lines or other systems may be reluctant or slow to adopt a new approach, like optical networks. Our success in generating revenues in this emerging market will depend on, among other things:

- maintaining and enhancing our relationships with our customers;
- the education of potential end-user customers and network service providers about the benefits of optical networks; and
- our ability to accurately predict and develop our products to meet industry standards.

If we are unable to do any of the foregoing, or if we fail to address changing market conditions, the sales of our products may decline, which would adversely impact our revenues.

We Anticipate Further Reductions In The Average Selling Prices Of Our Products And Therefore Must Increase Our Sales Volumes, Reduce Our Costs And/Or Introduce Higher Margin Products To Reach And Maintain Financial Stability. We have experienced decreases in the average selling prices of some of our products, including most of our passive component products, which has offset inflationary effects. Over 98% of our revenue increases have been attributed to volume increases. We anticipate that as products in the optical component and module market become more commodity-like, the average selling prices of our products will decrease further in response to competitive pricing pressures, new product introductions by us, our competitors or other factors. The optical component and module market is experiencing extreme volatility as a result of lower product demand than existed in 2000, which will make it more difficult for us to increase our sales volume. If we are unable to offset this anticipated decrease in our average selling prices by increasing our sales volumes or improving our product mix, our net revenues and gross margins will decline. In addition, to maintain or improve our gross margins, we must continue to reduce the manufacturing cost of our products, and we must develop and introduce new products and product enhancements with higher margins. If we cannot maintain or improve our gross margins, our financial position may be harmed and our stock price may decline.

C. Risks Related To Manufacturing Our Products

If We Do Not Accurately Project Demand For Our Products, We Will Have Excess Manufacturing Capacity Or Insufficient Manufacturing Capacity Which Can Adversely Affect Our Financial Results. We currently manufacture most of our products in our facility located in Orlando, Florida. Based on uncertainty in global economic conditions and particularly in our telecommunication market based products, we believe lower demand for various products will continue through fiscal 2007. We intend to operate at a "right-sized" production level during fiscal 2007 while retaining flexibility to meet demand if it should increase in the near future. We will accomplish this, in part, by maintaining some of our production workforce as temporary employees or contractors.

Our Failure To Accurately Forecast Material Requirements Could Cause Us To Incur Additional Costs, Have Excess Inventories Or Have Insufficient Materials To Build Our Products. We primarily use forecasts based on actual or anticipated product orders to determine our materials requirements. It is very important that we accurately predict both the demand for our products and the lead times required to obtain the necessary materials. Lead times for materials that we order vary significantly and depend on factors such as specific supplier requirements, the size of the order, contract terms and current market demand for the materials at a given time. If we overestimate our material requirements, we may have excess inventory, which would increase our costs. If we underestimate our material requirements, we may have inadequate inventory, which could interrupt our manufacturing and delay delivery of our products to our customers. Any of these occurrences would negatively impact our results of operations. Additionally, in order to avoid excess material inventories we may incur cancellation charges associated with modifying existing purchase orders with our vendors.

If We Do Not Achieve Acceptable Manufacturing Yields Or Sufficient Product Reliability, Our Ability To Ship Products To Our Customers Could Be Delayed. The manufacture of our products involves complex and precise processes. Our manufacturing costs for several products are relatively fixed, and, thus, manufacturing yields are critical to our results of operations. Changes in our manufacturing processes or those of our suppliers, or the use of defective materials, could significantly reduce our manufacturing yields and product reliability. In addition, we may experience manufacturing delays and reduced manufacturing yields upon introducing new products to our manufacturing lines. We may experience lower than targeted product yields in the future which could adversely affect our operating results.

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If Our Customers Do Not Qualify Our Manufacturing Lines For Volume Shipments, Our Operating Results Could Suffer. Generally, customers do not purchase our products, other than limited numbers of evaluation units, prior to qualification of the manufacturing line for volume production. Our existing manufacturing lines, as well as each new manufacturing line, must pass through varying levels of qualification with our customers. Customers may require that we be registered under international quality standards, such as ISO 9001. This customer qualification process determines whether our manufacturing lines meet the customers' quality, performance and reliability standards. If there are delays in qualification of our products, our customers may drop the product from a long-term supply program, which would result in significant lost revenue opportunity over the term of that program.

We Depend On Single Or Limited Source Suppliers For Some Of The Key Materials Or Process Steps In Our Products, Which Makes Us Susceptible To Supply Shortages, Poor Performance Or Price Fluctuations. We currently purchase several key materials or have outside vendors perform process steps, such as lens coatings, used in or during the manufacture of our products from single or limited source suppliers. We may fail to obtain required materials or services in a timely manner in the future, or could experience further delays from evaluating and testing the products or services of these potential alternative suppliers. The decline in demand in the telecommunications equipment industry may have adversely impacted the financial condition of certain of our suppliers, some of whom have limited financial resources. We have in the past, and may in the future, be required to provide advance payments in order to secure key materials from financially limited suppliers. Financial or other difficulties faced by these suppliers could limit the availability of key components or materials. Additionally, financial difficulties could impair our ability to recover advances made to these suppliers. Any interruption or delay in the supply of any of these materials or services, or the inability to obtain these materials or services from alternate sources at acceptable prices and within a reasonable amount of time, would impair our ability to meet scheduled product deliveries to our customers and could cause customers to cancel orders, negatively affecting our business.

Our Products May Contain Unknown Defects Which Would Adversely Affect Our Business. Some of our products are designed to be deployed in large and complex optical networks. Because of the nature of these products, they can only be fully tested for reliability when deployed in networks for long periods of time. Our fiber optic products may contain undetected defects when first introduced or as new versions are released, and our customers may discover defects in our products only after they have been fully deployed and operated under peak stress conditions. In addition, our products often are combined with products from other vendors. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to fix defects or other problems, we could experience, among other things:

- loss of customers;
- damage to our brand reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; and
- legal actions by our customers or third parties.

The occurrence of any one or more of the foregoing factors could cause our net revenues to decline or otherwise have an adverse effect on our business.

We Face Product Liability Risks Which Could Adversely Affect Our Business. The sale of our optical products involves the inherent risk of product liability claims by others. We do not currently maintain product liability insurance coverage. Product liability insurance is expensive, subject to various coverage exclusions and may not be obtainable on terms acceptable to us if we decide to procure such insurance in the future. Moreover, the amount and scope of any coverage may be inadequate to protect us in the event that a product liability claim is successfully asserted. Should any such claim be asserted and successfully litigated by an adverse party, there could be a material adverse effect to our financial position and results of operations.

D. Risks Related To Our Intellectual Property

If We Are Unable To Protect And Enforce Our Intellectual Property Rights, We May Be Unable To Compete Effectively. We believe that our patents and other intellectual property rights are important to our success and our competitive position, and we rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Although we have devoted substantial resources to the establishment and protection of our intellectual property rights, the actions taken by us may be inadequate to prevent imitation or improper use of our products by others or to prevent others from claiming violations of their intellectual property rights by us.

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In addition, we cannot assure that our patent applications will be approved, that any patents that we may be issued will protect our intellectual property or that third parties will not challenge any issued patents. Other parties may independently develop similar or competing technology or design around any patents that may be issued to us. We also rely on confidentiality procedures and contractual provisions with our employees, consultants and corporate partners to protect our proprietary rights, but we cannot assure the compliance by such parties with their confidentiality obligations, which could be very time consuming and expensive to enforce.

It may be necessary to litigate to enforce our patents, copyrights, and other intellectual property rights, to protect our trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Such litigation can be time consuming, distracting to management, expensive and difficult to predict. Our failure to protect or enforce our intellectual property could have an adverse effect on our business, financial condition, prospects and results of operation.

Others may have independently developed or will independently develop and patent similar or superior products and technologies, duplicate any of our products or technologies or design around our patents. There may be patents issued to others that will adversely affect the development or commercialization of our products or technologies. We do not have an insurance policy for patent infringement liability coverage for costs or damages relating to claims of infringement. We could incur substantial costs in defending suits brought against us, or any of our licensees, or in suits in which we may assert that our patent or patents provide us with rights against others or in suits contesting the validity of a patent. Any such proceedings could be protracted. In addition, there can be no assurance that we would be successful in defending our patent rights in any future infringement action. If the outcome of any such litigation is adverse to our interests, our business may be materially adversely affected.

We do not believe that any of our products or processes infringe any U.S. or foreign patent rights of any other party; however our products or processes may infringe or be found to infringe on another party's U.S. or foreign patent, or patent application. Patent applications in the United States are maintained in secrecy until the earlier of 18 months or the patent is issued. We could incur substantial costs in defending ourselves in infringement litigation brought by others, or in prosecuting infringement claims against third parties. An adverse party claiming patent or copyright infringement might assert claims for substantial damages or seek to obtain an injunction or other equitable relief, which could effectively block the ability for us to make, use, distribute and sell products.

We also rely on trade secrets and proprietary know-how. We seek to protect our trade secrets and proprietary know-how, in part, by confidentiality agreements with our employees, consultants and customers. However, our confidentiality agreements may be breached and we may not have adequate remedies for any breach. Some of the confidentiality agreements that we rely upon will expire in the next few years. Others may independently develop technology or processes substantially equivalent to or better than our technology or processes and our trade secrets may otherwise become disclosed to or independently discovered by our competitors.

We Do Not Have Patent Protection For Our Formulas And Processes, And A Loss Of Ownership Of Any Of Our Formulas And Processes Would Negatively Impact Our Business. We believe that we own our formulas and processes. However, we have not sought, and do not intend to seek, patent protection for all of our formulas and processes. Instead, we rely on the complexity of our formulas and processes, trade secrecy laws, and employee confidentiality agreements. However, we cannot assure you that other companies will not acquire our confidential information or trade secrets or will not independently develop equivalent or superior products or technology and obtain patent or similar rights. Although we believe that our formulas and processes have been independently developed and do not infringe the patents or rights of others, a variety of components of our processes could infringe existing or future patents, in which event we may be required to modify our processes or obtain a license. We cannot assure you that we will be able to do so in a timely manner or upon acceptable terms and conditions and the failure to do either of the foregoing would negatively affect our business, results of operations, financial condition and cash flows.

We May Become Involved In Intellectual Property Disputes And Litigation Which Could Adversely Affect Our Business. We anticipate based on the size and sophistication of our competitors and the history of rapid technological advances in our industry, that several competitors may have patent applications in progress in the United States or in foreign countries that, if issued, could relate to products similar to ours. If such patents were to be issued, the patent holders or licensees may assert infringement claims against us or claim that we have violated other intellectual property rights. These claims and any resulting lawsuits, if successful, could subject us to significant liability for damages and invalidate our proprietary rights. The lawsuits, regardless of their merits, could be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation could also force us to do one or more of the following, any of which could harm our business:

- stop selling, incorporating or using our products that use the disputed intellectual property;
- obtain from third parties a license to sell or use the disputed technology, which license may not be available on reasonable terms, or at all; or
- redesign our products that use the disputed intellectual property

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Necessary Licenses Of Third-Party Technology May Not Be Available To Us Or May Be Very Expensive. From time to time we may be required to license technology from third parties to develop new products or product enhancements. We can provide no assurance that third-party licenses will be available to us on commercially reasonable terms, or at all. The inability to obtain any third-party license required to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, either of which could seriously harm our ability to manufacture and sell our products.

On February 11, 2004, the University of Florida Research Foundation, Inc. ("UF") notified us that we were in default under the terms of the Amended and Restated License Agreement ("UF Agreement") for failure to pay certain back royalties and in April 2004 notified us that they had terminated the UF Agreement. UF claims that we owe \$83,000 in unpaid royalties. This amount has not been accrued on our books. While we dispute the amount owed and have previously engaged in discussions with UF about the matter, we do not believe that the termination of the UF Agreement has materially adversely affected our business since the licensed technology had never generated annual sales in excess of 3% of our total revenues from a single customer who had previously notified us that they were ceasing purchase of the product. UF has not made any efforts since mid 2004 to collect the amounts UF claims are owed by the Company.

Item 2. Properties

The Company occupies a 41,000 square foot facility in Orlando, Florida. The Orlando facility includes a 9,000 square foot clean room and 8,000 square feet used for storage. Lease terms on the Florida facility call for monthly rental payments of approximately \$70,000 until November 2008, which includes all charges, including common area maintenance, escalation, and certain pass-throughs of taxes and other operating costs. At June 30, 2006, most of the Company's physical assets, employees and operations were conducted from this facility, except for territorial sales personnel who office from their homes for the Company to serve their geographical territories. The Company believes that this facility is suitable and adequate for its immediate business needs and for up to two additional years.

The Company leased a 17,000 square foot facility located in Jiading, PRC in November 2005. The lease expires November 2010. The manufacturing operations located in the Jiading Industrial Zone near Shanghai. The China facility houses 49 employees.

Item 3. Legal Proceedings

On May 2, 2000, the Company commenced a class action lawsuit in the Chancery Court of Delaware, New Castle County (the "Delaware Action") seeking a declaratory judgment with respect to (i) the Company's right to redeem its Class E common stock on March 31, 2001 for \$.0001 per share, (ii) the right of the holders of Class E common stock to vote at the Annual Meeting to be held on October 6, 2000, and (iii) for certification of the holders of Class E common stock as a class and the named defendants as its representatives. The Delaware Action was settled in fiscal 2002 with the final settlement agreement requiring the Company to pay \$0.40 per share to each Class E shareholder. The settlement agreement permitted Class E shareholders to elect not to participate in the settlement and thus was not binding on any Class E shareholders who so elected. Approximately 12% of the former Class E shareholders elected not to participate in the settlement (see Texas Action described below). Since the beginning of fiscal 2003, the Company distributed approximately \$1.4 million of the \$1.5 million estimated total cost arising under the settlement agreement.

On or about June 9, 2000, a small group of holders of Class E common stock commenced an action against the Company in a state court in Texas. Plaintiffs in the Texas Action made various allegations regarding the circumstances surrounding the issuance of the Class E common stock and sought damages based upon those allegations. Management believes the allegations underlying the Texas Action are without merit.

On October 10, 2002, the Texas court granted the Company's motion for summary judgment dismissing all claims against the Company. The plaintiffs sought reconsideration of the ruling, however, the motion for reconsideration was denied and a final judgment in favor of the Company was signed on March 1, 2004. The plaintiffs appealed the summary judgment to the Fourteenth Court of Appeals in Houston, Texas. On October 20, 2005, the court of appeals affirmed the summary judgment and upheld the trial court's dismissal of all claims against the Company.

The plaintiffs appealed that ruling by filing a petition for review with the Texas Supreme Court on January 31, 2006. On April 7, 2006, the Texas Supreme Court denied the plaintiffs' petition for review. On May 26, 2006, the Texas Supreme Court denied the plaintiffs' motion for rehearing of the denial of the petition for review. No further review was sought by the plaintiffs. The summary judgment in favor of the Company as to all claims asserted by the plaintiffs is now final and the case is closed.